

Message Text

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FM AMEMBASSY KINGSTON

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C O N F I D E N T I A L KINGSTON 3578

E.O. 11652: GDS

TAGS: EMIN, EFIN, EINV, JM

SUBJECT: BAUXITE INDUSTRY PROBLEMS

REFERENCE: KINGSTON 3365

1. IF THE IMF HAS HAD GREAT DIFFICULTY IN RECONCILING
ITSELF TO JAMAICA'S TWO-TIER EXCHANGE RATE SYSTEM, THE
BAUXITE AND ALUMINA COMPANIES OPERATING HERE FIND IT AT
LEAST AS DIFFICULT. ACCORDING TO COMPANY SOURCES, THE
JUNE 22 MEETING BETWEEN SENIOR OFFICIALS OF THE SEVERAL
FIRMS AND THE MINISTER OF MINING, SENATOR DUDLEY
THOMPSON, THE GOVERNOR OF THE BANK OF JAMAICA, G.
ARTHUR BROWN, AND THE EXECUTIVE DIRECTOR OF THE JAMAICA
BAUXITE INSTITUTE, DR. CARLETON DAVIS (SEE REFTEL)
TURNED IN VERY LARGE MEASURE ON THE EFFECT OF THE
SYSTEM ON THE OPERATIONS -- AND COMPETITIVE POSITION
-- OF ALCOA, REYNOLDS, KAISER, ALCAN AND ALPART.

2. THE MEETING WAS TAKEN SERIOUSLY BY THE COMPANIES,
SEVERAL OF WHICH HAD SENT SENIOR PERSONNEL DEALING WITH
COMPANY FINANCES, AND THEY SOUGHT TO BRING HOME TO
THE JAMAICANS THE DEPTH OF THEIR CONCERN OVER THE
EFFECT OF THE TWO-TIER SYSTEM. AS THEY POINTED OUT,
ONCE AGAIN, THEY NEED TO BE GIVEN THE ADVANTAGES OF THE
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NEW RATE IF THEY ARE TO ENHANCE THEIR COMPETITIVE STANDING
VIS-A-VIS BAUXITE AND ALUMINA FIRMS ELSEWHERE. THOSE
WITH WHOM WE HAVE SPOKEN SAID THAT THE COSTS OF PRODUCTION
IN JAMAICA ARE SO HIGH THAT IT IS THEIR LEAST COMPETITIVE
SOURCE. WHILE THEIR EXISTING INVESTMENT AND THE SHORT
SHIPPING DISTANCE TO NORTH AMERICA, (PARTICULARLY
GULF PORTS) ARE IMPORTANT CONSIDERATIONS WHENEVER THE

"PROS" AND "CONS" OF THE JAMAICAN OPERATIONS ARE REVIEWED, NONE SEEM INTERESTED IN MAKING ANY FURTHER INVESTMENT UNDER PRESENT CONDITIONS. IF, HOWEVER, THEY COULD REDUCE THEIR COSTS BY HAVING JAMAICAN DOLLARS MADE AVAILABLE AT THE "NEW" RATE, THEIR COMPETITIVE POSITION WOULD BE IMPROVED.

3. ONE COMPANY OFFICIAL STATED THAT THE PROBLEM OF THE COMPETITIVE EDGE IS CERTAIN TO INCREASE. DESPITE THE REPORTS HE HAS HEARD THAT THE GOVERNMENT IS TO INTRODUCE A RIGOROUS INCOMES POLICY, HE SAID IT WAS HIS OWN FIRM OPINION THAT THE WORKERS WILL DEMAND FURTHER WAGE INCREASES, AND THAT THE GOVERNMENT WILL NOT HAVE THE WILL TO SIDE WITH THE COMPANIES IN RESISTING THE DEMANDS. IF THE WAGE BILL GOES UP, IT WILL BECOME IMPERATIVE TO PERMIT THE COMPANIES TO OBTAIN PAYROLL DOLLARS AT THE MORE ADVANTAGEOUS RATE.

4. THE MEETING DID NOT TURN ENTIRELY ON THE TWO-TIER SYSTEM, ALTHOUGH THE PRESENCE OF HIGH-LEVEL, HOME-OFFICE PERSONNEL INDICATES THE GRAVITY WITH WHICH THIS ISSUE WAS VIEWED. A SIGNIFICANT PORTION OF THE MEETING SEEMS TO HAVE BEEN SPECNT IN DISCUSSION OF THE RELATIVELY PEDESTRIAN BUT CONTINUALLY VEXING PROBLEMS INVOLVED IN TRYING TO CONDUCT MINING AND REFINING OPERATIONS IN JAMAICA. MOST COMPLAINTS TURNED ON THE EXTRAORDINARILY LONG DELAYS
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INVOLVED IN OBTAINING IMPORT LICENSES FOR EQUIPMENT, SOME OF IT KEY TO CONTINUING OPERATIONS. THERE WAS BITTER COMMENT ON THE INABILITY, IN THE PAST, TO GAIN SUPPORT FROM THE OSTENSIBLY INTERESTED MINISTRIES FOR EFFORTS TO OBTAIN NEEDED LICENSES. (ONE COMPANY REPRESENTATIVE DESCRIBED AN INCIDENT IN WHICH, IN DESPAIR, NEEDED PARTS FOR WHICH A LICENSE HAD LONG BEEN SOUGHT WERE SIMPLY BROUGHT INTO JAMAICA ABOARD ONE OF THE FIRM'S ORE BOATS.)

5. THE COMPANY REPRESENTATIVES APPEAR TO HAVE SEEN THE MEETING AS AN EFFORT BY GOVERNMENT TO PAPER OVER DIFFERENCES AND THEREFORE A BASICALLY UNSUCCESSFUL ONE. IT DID NOT -- OR COULD NOT -- RESOLVE THE CHIEF GRIEVANCE: THE INAPPLICABILITY OF THE "NEW" EXCHANGE RATE TO BAUXITE AND ALUMINA OPERATIONS. ONE OF THOSE WHO ATTENDED SAID THAT MINING MINISTER THOMPSON KEPT ASSERTING THAT JAMAICA WANTS AND NEEDS SOUND RELATIONS WITH THE COMPANIES, BUT ADDED THAT HE SEEMED OBTUSE IN DISCUSSING BASICS. (THERE IS SPECULATION AMONG THE COMPANIES THAT THOMPSON, WHO HAS BEEN ABSENT FROM JAMAICA ON NUMEROUS OCCASIONS SINCE TAKING OFFICE IN JANUARY, HAS BEEN TOLD BY THE PRIME

MINISTER TO TRY TO PAY ATTENTION TO THE COMPANIES AND TO FIND WAYS TO KEEP THEM HAPPY. SINCE THIS ROLE IS A CONSIDERABLE DEPARTURE FOR THOMPSON, THEY SUSPECT HE IS (HAVING SOME DIFFICULTY IN ADJUSTING.) THE COMPANIES THEMSELVES WERE LESS THAN FORTHCOMING IN PRESENTING THEIR OWN, INDIVIDUAL CASES, AND SOME MET INDIVIDUALLY WITH THOMPSON FOR FURTHER DISCUSSIONS. THE FIRST INHIBITING FACTOR LAY IN THE DESIRE OF EACH COMPANY TO PROTECT ITS OWN COMPETITIVE POSITION VIS-A-VIS OTHERS OPERATING IN JAMAICA; THUS, THEY ARE RELUCTANT IN A GENERAL MEETING TO DISCUSS ALL OF THEIR PROBLEMS LEST OTHERS GAIN AN ADVANTAGE. THE SECOND INHIBITING FACTOR WAS THE INABILITY TO WORK OUT A CONCERTED POSITION GIVEN THE LIMITATIONS IMPOSED BY AMERICAN ANTI-TRUST LEGIS-
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LATION.

6. WHETHER THE COMPANIES WOULD IN FACT HAVE BEEN ABLE TO MAKE MORE HEADWAY IF FREED OF THEIR OWN INHIBITING FACTORS IS DIFFICULT TO JUDGE. WE DOUBT THAT IT WOULD HAVE MADE MUCH DIFFERENCE. THE JAMAICAN GOVERNMENT STILL TENDS TO LOOK ON DEALINGS WITH THE BAUXITE AND ALUMINA COMPANIES IN "WE/THEY" FASHION, NOTWITHSTANDING THE COMPLEMENTARY CHARACTER OF THEIR INTERESTS. EVEN IN THE CASE OF ALCOA, WHICH ISN IN PARTNERSHIP WITH THE JAMAICAN GOVERNMENT AS A RESULT OF THE AGREEMENT ENTERED LAST OCTOBER, THE TENDENCY IS TO TREAT PROBLEMS IN ADVERSARY FASHION.
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